

REQUEST FOR PROPOSALS FOR INVESTMENT CONSULTING SERVICES

State of Alabama Alabama Trust Fund

Release Date: December 9, 2014
Proposal Due Date: January 8, 2015

BEASON-HAMMON ALABAMA TAXPAYER AND CITIZEN PROTECTION ACT COMPLIANCE

The Beason-Hammon Alabama Taxpayer and Citizen Protection Act (§§31-13-1 et seq, Code of Alabama, 1975, as amended by Act 2012-491) regulates illegal immigration in the State of Alabama. All contracts with the State or a political subdivision thereof must comply with that law.

For the purposes of this RFP and any responding Proposal, the following sections of that law impose specific requirements: Section 9 (a) of the Act provides “As a condition for the award of any contract, grant, or incentive by the state, any political subdivision thereof, or a state-funded entity to a business entity or employer that employs one or more employees, the business entity or employer shall not knowingly employ, hire for employment, or continue to employ an unauthorized alien within the State of Alabama.”

Section 9(b) of the Act requires “ As a condition for the award of any contract, grant, or incentive by the state, any political subdivision thereof, or a state-funded entity to a business entity or employer that employs one or more employees within the State of Alabama, the business entity or employer shall provide documentation establishing that the business entity or employer is enrolled in the E-Verify program.”

As provided in the Act a “business entity” is *any person or group of persons performing or engaging in any activity, enterprise, profession, or occupation for gain, benefit, advantage, or livelihood, whether for profit or not for profit* and an “employer” is defined as *any person, firm, corporation, partnership, joint stock association, agent, manager, representative, foreman, or other person having control or custody of any employment, place of employment, or of any employee, including any person or entity employing any person for hire within the State of Alabama, including a public employer. This term shall not include the occupant of a household contracting with another person to perform casual domestic labor within the household.*

A Proposal must include a statement that the Proposer has knowledge of this law and is in compliance with Section 9(a). Before a contract is signed, the Contractor awarded the contract must submit a Certificate of Compliance using the form provided with this RFP, Exhibit D, and documentation establishing enrollment in the E-Verify Program operated by the United State Department of Homeland Security in the form of the Memorandum of Understanding which USHLS issues upon enrollment. E-Verify enrollment can be accomplished at the website of the United States Department of Homeland Security at <http://www.uscis.gov>.

See Section 7 for additional language required by Section 9(k) of the Act to be included in the contract.

1. Overview.

This Request for Proposals (“RFP”) has been issued by the Alabama Trust Fund Board of Directors (“Board”). The Board solicits proposals from qualified professional firms interested in providing investment consulting services (“the Consultant”) to the Alabama Trust Fund and the County and Municipal Government Capital Improvement Trust Fund.

This Request for Proposals is issued in accordance with the requirements of Section 41-16-72(4), Code of Alabama (1975). Any interested, qualified parties may respond. This RFP is not an offer to contract but seeks the submission of proposals from qualified, professional firms that may form the basis for negotiation of an Investment Consulting Agreement. *The Board reserves the right to reject any or all proposals and to solicit additional proposals if that is determined to be in the best interest of the Alabama Trust Fund.*

2. Information

The Alabama Trust Fund (“ATF”) was created by Amendment 450 to the Alabama Constitution and ratified in 1985. The ATF was established as an investment vehicle for the management of oil and gas capital payments generated from drilling activity in Alabama’s offshore waters. The Alabama Trust Fund is under the management and control of a nine member board. The board consists of the Governor, Finance Director, State Treasurer and six appointed members.

ATF’s goals and objectives are:

- To provide an annual total return greater than distributions required by law.
- Consistent with prudent standards for preservation of capital and maintenance of liquidity, to earn the highest possible total rate of return consistent with the Fund’s tolerance for risk as determined periodically by the Board.
- In carrying out these objectives, short-term fluctuations in the value of the Fund’s assets shall be considered secondary to long-term investment results.
- The Fund has a long-term investment horizon and believes that asset allocation is the major determinant of investment performance. Consequently, a long-term asset allocation will be determined consistent with the Fund’s investment objectives and performance goals.
- The assets will be managed on a total return basis. Although the policy recognizes the importance of preserving capital, it also must reflect that degrees of investment risk are generally rewarded with increased returns that compensate for the additional risk.
- Additionally, risk greater than that of stable long-term low risk securities will be required to preserve the purchasing power of the Fund. It is appropriate to pursue riskier investment strategies if such strategies are in the Fund’s best interest. Selection of investment strategies will be evaluated on a risk-adjusted basis as needed to meet the investment objectives of the Fund.

The Investment Policy Statement is attached as Exhibit E. Additional information regarding the Alabama Trust Fund, including board materials, quarterly financial information, and investment

performance reviews of the investment managers is available at www.treasury.alabama.gov, click Alabama Trust Fund.

The current manager structure, as of September 30, 2014, is as follows:

Allocation	Manager	Market Value (in millions)
Large Cap Equity	Retirement Systems of Alabama	\$ 269
	CS McKee, LP	\$ 180
	INTECH	\$ 174
Small Cap Equity	Atlanta Capital Management	\$ 98
	Smith Group Asset Mgmt	\$ 92
International Equity	AllianceBernstein	\$.9
	Batterymarch Financial Mgmt	\$ 188
	Thornburg Investment Mgmt	\$ 259
	GMO	\$ 74
	Wells Fargo Emerging Mkts	\$ 80
Domestic Fixed	Aberdeen Asset Mgmt	\$ 200
	Pyramis Global Advisors	\$ 307
	Sterne Agee Asset Mgmt	\$ 160
	Western Asset Mgmt	\$ 221
Real Estate	Angelo, Gordon & Co	\$ 28
	Heitman	\$ 84
	UBS	\$ 80
TOTAL		\$2,494

Additionally, the ATF Board manages the investment of the County and Municipal Government Capital Improvement Trust Fund (“CMT”). The CMT distributes a portion of its earnings annually; however, principal is not distributed. Managers selected for the ATF will be utilized for management of funds in the CMT based on the asset allocation study for the CMT and recommendation by the Consultant. The Investment Policy Statement and recent quarterly investment performance report can be found on the Treasury website www.treasury.alabama.gov, click Alabama Trust Fund.

The current CMT manager structure, as of September 30, 2014, is as follows:

Allocation	Manager	Market Value (in millions)
Large Cap Equity	Retirement Systems of Alabama	\$ 133
Small Cap Equity	Atlanta Capital Management	\$ 17
	Smith Group Asset Mgmt	\$ 17
International Equity	GMO	\$ 14
	Batterymarch Financial Mgmt	\$ 31
	Thornburg Investment Mgmt	\$ 55

	Wells Capital	\$ 16
Domestic Fixed	Pyramis Core Bond	\$ 87
	Regions Bank	\$ 85
TOTAL		\$ 455

3. Minimum Qualifications.

In order to be considered for selection, Exhibit C must be included in the proposal as documented proof that the following minimum qualifications listed below are met. The Respondent has a continuing obligation throughout the RFP process to disclose any change that might render the Respondent an unqualified candidate.

- The Consultant has at least ten years' experience in consulting with single account trust/pension funds with assets in excess of \$1 billion and diversified among asset classes.
- The investment advisor assigned to ATF has at least five years' experience with single account trust/pension funds with assets in excess of \$1 billion and diversified among asset classes.
- The Consultant is a registered investment advisor with the SEC under the Investment Advisors Act of 1940 or if not, specify fiduciary classification.
- The Consultant carries errors and omissions insurance and fiduciary or professional liability insurance.
- The Consultant and its personnel has all authorizations, permits, licenses, and certifications as may be required under federal, state or local law to perform the services specified in this RFP at the time it submits a response to the RFP.
- The Consultant has a policy and practice of equal employment opportunity and non-discrimination based on race, age, creed or gender.
- The Consultant will comply with all state regulations to conduct business in the State of Alabama, and will register with the Secretary of State if applicable. For more information, visit the Secretary of State website at www.sos.state.al.us/ and click Business Services/Corporations.
- The Consultant complies with all applicable GIPS performance presentation standards.
- The Consultant will comply with *The Beason-Hammon Alabama Taxpayer and Citizen Protection Act*.

4. Proposal Required Information.

Proposals should be as thorough and detailed as possible so that your capabilities to provide the required services can be properly evaluated.

Responses to this RFP must include:

- (1) a brief transmittal letter which must include a statement that the Proposer has read this RFP and accepts the terms and conditions set out herein and that the Proposer is aware of the requirements of the Beason-Hammon Alabama Taxpayer and Citizen Protection Act and will comply with that law.
- (2) Exhibit A, RFP Response;
- (3) Exhibit B, Statement of Fees;

- (4) Exhibit C, Minimum Qualifications;
- (5) Exhibit D, Certificate of Compliance;
- (6) Other documents:
 - A sample of contracts and all other standardized forms which you propose to be used for this transaction, and
 - List of third-party service providers with whom ATF would be required to contract in order to fully utilize the services you represent to be available under your contract; and
 - List of software licenses or agreements that ATF would be required to procure in order to fully utilize your services.
- (8) Disclosure Statement. All proposals submitted in response to this RFP must include one original Disclosure Statement as required by Section 41-16-82, et seq., Code of Alabama (1975). Copies of the Disclosure Statement, and information, may be downloaded from the State of Alabama Attorney General's web site at www.ago.alabama.gov/publications.cfm.

5. Submission of Proposals.

Issuing Office, on behalf of the Board:

Office of State Treasurer
Alabama State Capitol
600 Dexter Avenue, Suite S106
Montgomery, Alabama 36104

The status of the RFP can be found on the Alabama State Comptroller's website, RFP Database at <http://rfp.alabama.gov/PublicView.aspx>. The ATF can be found in the drop down box as 520-Alabama Trust Fund.

Submission Deadline. It is the responsibility of the Consultant to insure that its proposal is timely delivered and received at the Issuing Office's address stated in the previous paragraph, not later than 5:00 p.m. on January 8, 2015. The response may be emailed by the submission deadline with the paper documents delivered within two business days. Provide the original proposal response plus two additional copies. If only the hard copy of the original is submitted, email an electronic copy of the proposal to alatreas@treasury.alabama.gov for retention purposes.

The Board will not consider proposals received after the date and time specified herein. The Board assumes no responsibility for late delivery by the U.S. Mail, the State's Central Mail Facility, a commercial courier service, or any other method of delivery selected by the Consultant.

Questions and Inquiries. The sole point of contact for purposes of this RFP is Cory Rambo. All questions concerning this RFP should be directed to Mr. Rambo at cory.rambo@treasury.alabama.gov. Any oral communications shall be considered unofficial and nonbinding on the Alabama Trust Fund.

6. Evaluation and Selection.

All proposals timely received will be reviewed and evaluated by a Review Committee or the Board. After the review and evaluation of the proposals, the Board may conduct interviews. Finalists chosen for interviews, if necessary, will be notified. The Board reserves the right to request a best and final offer for fees from finalists.

The Board will select the Consultant the Board determines, in their sole discretion, to be fully qualified and best suited among those submitting proposals to best meet the needs of the Alabama Trust Fund. *All proposals received in response to this RFP may be rejected and the Board may solicit additional proposals.*

The status of the RFP can be found on the Alabama State Comptroller's website, RFP Database at <http://rfp.alabama.gov/PublicView.aspx>. The ATF can be found in the drop down box as 520-Alabama Trust Fund.

7. Agreement.

All duties of the Consultant shall be set forth in a contract between the selected Respondent and the Board. It is anticipated that a contract will be awarded for a term of three years, with the Board having the option to renew for additional terms. The contract will incorporate reference to the requirements of the RFP and the proposal as negotiated.

In compliance with the Beason-Hammon Alabama Taxpayer and Citizen Protection Act (§31-13-9(k), Code of Alabama, 1975, as amended), the contract will include the following language:

“By signing this contract, the contracting parties affirm, for the duration of the agreement, that they will not violate federal immigration law or knowingly employ, hire for employment, or continue to employ an unauthorized alien within the State of Alabama. Furthermore, a contracting party found to be in violation of this provision shall be deemed in breach of the agreement and shall be responsible for all damages resulting therefrom.”

You are charged with knowledge that there are certain terms standard to most commercial contracts in private sector use which the ATF is prevented by law and policy from accepting. These include (1) indemnification and hold harmless of the vendor or third parties, (2) consent to choice of law and venue other than the State of Alabama, (3) methods of dispute resolution other than negotiation and non-binding mediation, (4) waivers of subrogation and other rights against third parties and (5) some provisions limiting damages to the cost of goods or services;

8. Efforts to Influence Selection Process Prohibited

The integrity of the Request for Proposal process is of primary importance and will not be compromised. Any written or oral communications beyond the RFP response made by responders, or others on their behalf, whether paid or unpaid, to influence the selection process, from the time the RFP is issued through its conclusion, made directly or indirectly to the Board, or the staffs of the Governor, Finance Director or Treasurer will be grounds for immediate elimination from the selection process.

9. Public Information

All responses received will be subject to the Alabama Open Records Act, §36-12-40, Code of Alabama and may be subject to public disclosure upon request. The Open Records Act is remedial and will therefore be liberally construed in favor of the public. The Alabama Trade Secrets Act is §8-27-1 through §8-27-6, Code of Alabama. Responders are cautioned to be familiar with these statutes. The burden is on the party asserting the trade secret to show that the information sought to be protected meets the definition of a Trade Secret provided in the Act.

Any RFP response submitted that contains confidential, trade secrets or proprietary commercial information must be conspicuously marked on the outside as containing confidential information, and each page upon which confidential information appears must be conspicuously marked as such. Identification of the entire proposal as confidential is not acceptable unless the Consultant enumerates the specific grounds or applicable laws which support treatment of the entire material as protected from disclosure according to the foregoing statutes or other applicable Alabama law.

The owner of the confidential information shall indemnify and hold the State of Alabama, the Board, and staff harmless from all costs or expenses, including but not limited to attorney fees and expenses related to litigation concerning disclosure of said information and documents.

Exhibit A

Proposal

A. Corporate Information

Provide an overview of your firm, including the following:

1. Corporate profile, including the financial condition of the firm, overall business objectives, strategic plans for growth, and ownership. List all office locations and the functions performed at each location.
2. Describe all business avenues in which your firm is engaged. Include any related or affiliated firms, and specifically if any will be utilized for the Alabama Trust Fund.
3. Provide details of any SEC, other federal regulatory, state regulatory, self-regulatory organization, or professional organization action taken against your firm or any of its owners, principals, or personnel, in the three preceding years.
4. Provide details of all claims, disputes, litigation or other legal proceedings where your firm and the State of Alabama or any of its agencies, are parties, in the three preceding years.
5. Provide details of all SEC fidelity bonds, errors and omissions coverage, and any other fiduciary insurance, which your firm carries.
6. Describe all arrangements or understandings (written or oral) between your firm and any advisor, broker, law firm, or other individual or entity in connection with the solicitation or referral of clients between the firms.
7. Has your firm adopted policies consistent with GIPS trade management/soft dollar guidelines? If so, provide details.
8. Describe factors or reasons that you want ATF to consider that will distinguish your proposal and firm from your competitors.

B. Personnel

1. Provide an organizational chart of the investment consulting portion of your business. List the number of employees, professional and support, in each function. Indicate any areas of special consulting expertise in a fund similar to this one.
2. Provide biographies of the key individuals within each area that will handle this account.

C. Performance Reporting

Currently, the Board receives a comprehensive quarterly report that is presented by the Consultant at the regularly scheduled board meetings for the ATF and CMT. The report includes individual and composite manager performance, asset allocation, peer analysis, and a market overview. This report is included on the website. Additionally, a condensed monthly report is provided on manager performance only. Bank of New York Mellon is the current custodian for ATF.

1. How long has your firm been providing performance reporting services? How many clients currently use this service? How many are similar in asset size and asset diversification as the ATF?
2. Give a brief overview of the database system used in the production of your quarterly performance report. Is the system developed in-house?
3. Discuss the performance database or universe used for the relative performance comparisons. Are these funds of similar size and function as ATF?
4. Describe your process for calculating investment performance and security prices. Do you reconcile your calculated performance with investment managers and/or custodians? Do you use market prices provided by the custodian or manager?
5. Describe your philosophy on selecting appropriate benchmarks most relevant to the asset class.
6. Describe your capabilities to provide a condensed monthly performance report by manager by email.
7. What is your philosophy on manager watch list? If you recommend watch lists, provide a sample of criteria recommended for watch status.

D. Asset Allocation/Asset Liability Modeling

1. Describe your process to develop and recommend asset allocation, including variables such as risk tolerance, spending policy, and income generation.
2. Describe your capabilities to facilitate educational training or to provide training to the Board on various asset classes, including alternative and opportunistic investments.
3. Describe your firm's asset allocation experience with a multi-billion diversified portfolio similar to ATF.
4. Describe your asset liability modeling capabilities. With what frequency do you recommend preparing and presenting a full asset allocation and liability review?

E. Manager Selection

1. Does your firm maintain an in-house database of investment managers? If not, what database is used? How many managers are included in the database? What asset classes are covered?
2. Describe the process used to gather, verify, update and maintain the data collected on managers for the database. Do you conduct onsite visits to managers?
3. Describe your firm's process for evaluation and recommendation of investment managers, including your ability and willingness to attend manager interviews. Note that state law requires that an RFP be issued for each manager search. The RFP will be provided by ATF; however, the Consultant will review and provide assistance and guidance in its compilation.
4. Do you charge direct or indirect fees for investment managers to be included in your database? If so, what are the fees and how do you prevent a conflict of interest?

F. Manager Monitoring

The Board relies on the Consultant to monitor the managers employed by the Board. This includes policy compliance, compliance with manager guidelines and other issues related to investments

and management styles.

1. Describe the process of monitoring the activities of managers.
2. Describe your approach and criteria for recommending a manager be placed on a “watch list” and then removed from the list, or replaced.

G. Other Services

1. What is your firm’s philosophy regarding transition managers. Describe your process to recommend a pool of transition managers and the process to utilize their services.
2. What services can you provide the Board regarding securities lending managed through the custodian, such as review of securities lending policy, recommendation for investment of cash, etc.
3. Describe your abilities to provide insight into current investment trends, asset classes, investment instruments, etc.
4. Describe any other services that you can provide to the ATF.

H. Investment Policy

1. Describe your firm’s process regarding the development, review and maintenance of an investment policy for ATF and CMT.
2. Do you typically recommend total fund guidelines or per manager? What is the firm’s philosophy in reviewing and managing total fund asset diversification and performance?

I. Clients

1. Provide a representative client listing as well as the following information on at least 3 government or large commercial clients for whom similar services as described in this RFP are provided.
 - A. Company
 - B. Address
 - C. Contact Person
 - D. Telephone Number
 - E. Length of Relationship in Years
 - F. Services Provided

EXHIBIT B FEES

The Consultant shall be entitled to receive quarterly compensation in arrears. Provide a fee schedule for all services described in Exhibit A for a three year period with a two year extension as mutually agreed upon. The fee should include unlimited manager searches and at least one asset liability study for ATF and CMT. Include fees for additional studies or services. Note that the services are provided for ATF and for CMT.

Any charge for services not addressed in the Statement of Fees in your proposal will not be allowed during the course of the contract. Fees will not increase during the term of the contract unless designated in your response and agreed to by ATF and CMT.

EXHIBIT C
MINIMUM QUALIFICATIONS

1. The Consultant has at least ten years' experience in consulting with trust funds with assets in excess of \$1 billion and diversified among asset classes. ☐ Yes ☐ No
2. The investment advisor assigned to ATF has at least five years' experience with trust/pension funds with assets in excess of \$1 billion and diversified among asset classes. ☐ Yes ☐ No
3. The Consultant is a registered investment advisor with the SEC under the Investment Advisors Act of 1940 or if not, specify fiduciary classification. ☐ Yes ☐ No
4. The Consultant carries errors and omissions insurance and fiduciary or professional liability insurance. ☐ Yes ☐ No
5. The Consultant and its personnel has all authorizations, permits, licenses, and certifications as may be required under federal, state or local law to perform the services specified in this RFP at the time it submits a response to the RFP. ☐ Yes ☐ No
6. The Consultant has a policy and practice of equal employment opportunity and non-discrimination based on race, age, creed or gender. ☐ Yes ☐ No
7. The Consultant will comply with all state regulations to conduct business in the State of Alabama, and will register with the Alabama Secretary of State if applicable. ☐ Yes ☐ No
8. The Consultant complies with all applicable GIPS performance presentation standards. ☐ Yes ☐ No
9. The Consultant will comply with the *Beason-Hammon Alabama Taxpayer and Citizen Protection Act*. ☐ Yes ☐ No

EXHIBIT D

CERTIFICATE OF COMPLIANCE WITH THE BEASON-HAMMON ALABAMA TAXPAYER AND CITIZEN PROTECTION ACT (ACT 2011-535, as amended by Act 2012-491)

RE Contract/Grant/Incentive (describe by number or subject):

_____ by and between
_____ (Contractor/Grantee) and
_____ (State Agency or Department or
other Public Entity)

The undersigned hereby certifies to the State of Alabama as follows:

1. The undersigned holds the position of _____ with the Contractor/Grantee named above, is authorized to provide the representations that are set out in this Certificate as the official and binding act of that entity, and has knowledge of the provisions of THE BEASON-HAMMON ALABAMA TAXPAYER AND CITIZEN PROTECTION ACT (ACT 2011-535 of the Alabama Legislature, as amended by Act 2012-491) which is described herein as "the Act".
2. Applying the following definitions from the Section 3 of the Act, the Contractor/Grantee business structure is as indicated by my initials.

BUSINESS ENTITY. Any person or group of persons employing one or more persons performing or engaging in any activity, enterprise, profession, or occupation for gain, benefit, advantage, or livelihood, whether for profit or not for profit. "Business entity" shall include, but not be limited to the following:

- a. Self-employed individuals, business entities filing articles of incorporation, partnerships, limited partnerships, limited liability companies, foreign corporations, foreign limited partnerships, foreign limited liability companies authorized to transact business in this state, business trusts, and any business entity that registers with the Secretary of State.
- b. Any business entity that possesses a business license, permit, certificate, approval, registration, charter, or similar form of authorization issued by the state, any business entity that is exempt by law from obtaining such a business license, and any business entity that is operating unlawfully without a business license.

EMPLOYER. Any person, firm, corporation, partnership, joint stock association, agent, manager, representative, foreman, or other person having control or custody of any employment, place of employment, or of any employee, including any including any person or entity employing any person for hire within the State of Alabama, including a public employer. This term shall not include the occupant of a household contracting with another person to perform casual domestic labor within the household.

- _____ a. The Contractor/Grantee is a business entity or employer as those terms are defined in Section 3 of the Act.
- _____ b. The Contractor/Grantee is not a business entity or employer as those terms are defined in Section 3 of the Act.

3. As of the date of this Certificate, Contractor/Grantee does not knowingly employ an unauthorized alien, as that term is defined in Section 3 of the Act, within the State of Alabama and hereafter it will not knowingly employ, hire for employment, or continue to employ an unauthorized alien within the State of Alabama.

{Alien is any person who is not a citizen or national of the United States, as described in 8 U.S.C. § 1101, et seq., and any amendments thereto.}

{Unauthorized Alien is an alien who is not authorized to work in the United States as defined in 8 U.S.C. § 1324a(h)(3).}

4. Contractor/Grantee is enrolled in E-Verify unless it is not eligible to enroll because of the rules of that program or other factors beyond its control.

Certified this _____ day of _____ 20____.

Name of Contractor/Grantee/Recipient

By: _____

Its _____

The above Certification was signed in my presence by the person whose name appears above, on this _____ day of _____ 20____.

WITNESS _____
Print Name of Witness

EXHIBIT E

INVESTMENT POLICY STATEMENT

for

THE ALABAMA TRUST FUND

November 2014

I. BACKGROUND AND PURPOSE

A. Constitutional Authority

Amendment No.450 to the Constitution of the State of Alabama of 1901 created the Alabama Trust Fund ("Fund") as an irrevocable, permanent trust fund to be administered in accordance with the provisions of Amendment 450.

The Fund is under the management and control of the Board of Trustees ("Board") established by Amendment 450, and all powers necessary or appropriate for the management and control of the Fund are vested solely in the Board.

B. Background

In 1985, the Fund was established as an investment vehicle for the management of oil and gas capital payments generated from drilling activity in Alabama's offshore waters. The initial corpus of the Fund was \$334 million. The gas royalty payments are in decline and are expected to cease in or about 2032.

C. Investment Policy

Section 5 (b) of Amendment 450 states that "to the extent practicable, the board shall keep all moneys at any time held in the trust fund invested in such eligible investments as shall, in its sole and uncontrolled judgment, produce the greatest trust income over the term of such investments while preserving the trust capital."

Additionally, "the Board shall have full power and authority to select the eligible investments in which monies held in the trust fund shall at any time be invested."

The Fund's goals and objectives are:

- To provide an annual total return greater than that distributed.
- Consistent with prudent standards for preservation of capital and maintenance of liquidity, to earn the highest possible total rate of return consistent with the Fund's tolerance for risk as determined periodically by the Board.
- In carrying out these objectives, short-term fluctuations in the value of the Fund's assets shall be considered secondary to long-term investment results.

- The Fund has a long-term investment horizon and believes that asset allocation is the major determinant of investment performance. Consequently, a long-term asset allocation will be determined consistent with the Fund's investment objectives and performance goals.
- The assets will be managed on a total return basis. Although the policy recognizes the importance of preserving capital, it also must reflect that degrees of investment risk are generally rewarded with increased returns that compensate for the additional risk.
- Additionally, risk greater than that of stable long-term low risk securities will be required to preserve the purchasing power of the Fund. It is appropriate to pursue riskier investment strategies if such strategies are in the Fund's best interest. Selection of investment strategies will be evaluated on a risk-adjusted basis as needed to meet the investment objectives of the Fund.

The purpose of this Investment Policy Statement ("IPS") is to identify investment objectives, guidelines, and performance standards for the investment of the assets of the Fund. This IPS may be modified from time to time by action of the Board. The primary focuses of this IPS are as follows:

- Clearly distinguish among the responsibilities of the Board, the Fund's investment managers and the Fund's service providers;
- Provide criteria for monitoring and evaluating the performance of investment managers and investment vehicles relative to appropriate investment benchmarks;
- Provide criteria for manager/fund selection, termination and replacement;

D. Eligible Investments

Amendment No. 488 to the Constitution of the State of Alabama of 1901 states that the Fund may be invested in such kinds of investments as authorized by law for the investment of any of the trust funds of either the teachers' retirement system of Alabama or the employees' retirement system of Alabama.

Unless restricted elsewhere in the IPS, eligible investments shall consist of all types of securities contained in the following indices:

Barclays Capital Aggregate Bond Index, Merrill Lynch High Yield Cash Pay Index, Wilshire 5000 Index, MSCI EAFE Index, MSCI All Country World Index, MSCI World Index Small Cap and the MSCI Emerging Markets Free Index.

In addition to the Barclays Aggregate Index listed about, core fixed income managers may invest in securities outside the index as long as their addition does not significantly change the risk profile of the manager's portfolio as a whole. Potential investments may include, but are not limited to, TIPs, CMOs, ARMs, Hybrid ARMs and Munis.

II. ROLES AND RESPONSIBILITIES

A. Board

The Board is generally responsible for developing, implementing, supervising and evaluating the investment of funds, contracting with service providers, and monitoring and evaluating the effectiveness of service providers in carrying out their respective duties. Specifically, the Board is responsible for:

1. Delineating general investment policy for the Fund including:
 - a. Asset allocation, which establishes and communicates the Board's return expectations and risk tolerance;
 - b. Investment manager structure, which identifies the types of investment managers that are appropriate for the Fund; and
 - c. Investment manager guidelines, which establish and communicate the risk parameters set by the Board for each individual manager consistent with the overall risk level set for the Fund.
2. Contracting with service providers such as a custodian, investment managers and an investment consultant to assist the Board in implementing policy and managing the investments of the Fund.
3. Establishing effective communication and review procedures between the investment managers, the investment consultant, the custodian, and the Board.
4. Monitoring and evaluating each investment manager's success in achieving the objectives set for such manager by the Board and adhering to established guidelines.
5. Monitoring and managing investment expenses, including investment manager fees and trading costs.
6. Monitoring and evaluating applicable governmental regulations.

B. Investment Consultant

The primary role of the Investment Consultant is to assist the Board in developing and implementing a prudent process for monitoring and evaluating the investments of the Fund. In specific terms, the responsibilities of the Investment Consultant include:

1. Assisting the Board in the development, implementation, and evaluation of investment policy for the Fund.
2. Assisting The Board in the development, implementation and evaluation of an investment manager structure that provides appropriate diversification with respect to the number and types of investment managers.
3. Making recommendations to the Board regarding the identification of appropriate market benchmarks and peer groups against which each investment option should be evaluated.
4. Conducting a prudent investment manager search process, as needed, to identify appropriate candidates for review and selection by the Board.
5. Producing quarterly performance evaluation reports. Such reports will evaluate the performance and risk characteristics of each investment option and each investment

manager relative to targets established in this IPS. The Investment Consultant will also evaluate the investment style of each manager to determine if the manager is fulfilling the role for which they were hired. In conjunction with these reports, the Investment Consultant will provide the Board with recommendations for action when appropriate or if required by the Board.

6. Monitoring the investment management firms and products employed by the Board on an on-going basis and inform the Board of any developments that might impact investment performance or the Fund.
7. Educating the Board on investment issues that could impact the Fund.

C. Custodian

The Custodian has four primary responsibilities, namely:

1. Safekeeping of assets – custody, valuation and accounting & reporting of assets;
2. Trade processing – track and reconcile assets that are acquired and disposed;
3. Asset servicing – maintain all economic benefits of ownership such as income collection, corporate actions, and proxy notification issues;
4. Appropriate management of the securities lending program according to the guidelines established in this IPS.

D. Investment Managers

The specific duties and responsibilities of each Investment Manager include:

1. Managing those assets of the Fund under its supervision in accordance with the guidelines and objectives contained in this IPS, and consistent with each manager's stated investment philosophy and style as presented to the Board.
2. Exercising investment discretion in regard to buying, managing and selling Fund assets, subject to any limitations contained in this IPS.
3. Promptly voting all proxies and taking all related actions in a manner consistent with the long-term interest and objectives of the Fund as described in this IPS. Each Investment Manager shall keep detailed records his or her voting of proxies and related actions and will comply with all regulatory obligations related thereto.
4. Communicating timely with the Board, Investment Consultant, and Custodian, as necessary.
5. To acknowledge and agree in writing as to the Investment Manager's fiduciary responsibility to fully comply with the objectives and guidelines set forth in this IPS or otherwise set out by the Board.

III. INVESTMENT STRUCTURE

A. *Investment Objective*

The investment objective is to preserve the purchasing power of the Fund's assets and the annual support provided by these assets. The Fund embraces the total return concept summarized by the following formula.

$$\text{Required Return} = \text{Rate of Purchasing Power Loss (Inflation)} + \text{Total Spending Rate}$$

The Fund will attempt to minimize the risk of falling short of its return objectives, measured over rolling three- and five-year periods.

B. Spending Policy

The Fund has two core spending policies as mandated by Amendment No. 666 and Amendment No. 856 to the Constitution of the State of Alabama of 1901.

1. Annually, 35% of oil and gas royalties paid into the Fund are redistributed to the County and Municipal Government Trust Fund and the Alabama Capital Improvement Trust Fund. The distribution occurs on October 1. Investment managers will be notified in mid-September of their share of this funding requirement.
2. The purpose of the spending rate formula is to provide a stable distribution stream that does not reduce the purchasing power of the corpus of the Fund over time. The spending formula and spending rate for the Fund is as follows, unless changed with a two-thirds recorded vote of the entire membership of the Board.

$$\text{Spending Policy FYx} = 33\% \times \text{royalties FYx-2} + 5\% \times 3 \text{ year average of Invested Assets FYx-2,-3,-4}$$

Distribution shall be made quarterly as adopted by the Board. Managers will be notified at least two weeks in advance of their share of this funding requirement.

"Invested Assets" shall mean the market value of all assets invested in accordance with this IPS held by an investment manager and reported on the September 30 quarterly report provided by the Investment Consultant. Invested Assets shall not include cash held by the Custodian or by the Fund's bank.

C. Asset Allocation Guidelines

The asset allocation adopted by the Board for the Fund is intended to reflect, and be consistent with, the Board's return objectives and risk tolerance. The asset allocation is developed by the Board and the Investment Consultant after examining the historical relationships of risk and return among the Fund's asset classes and the relationship between the expected behavior of the

Fund's assets and spending policy objectives. It is designed to provide the greatest probability of meeting or exceeding the Fund's objectives at the lowest possible risk.

In establishing the Board's risk tolerance for the Fund, the Board considered the Fund's ability to withstand short and intermediate-term volatility in various market conditions. The Board also reviewed the long-term characteristics of various asset classes, focusing on balancing risk with expected return. On the basis of the Board's time horizon and risk tolerance, the following asset allocation guidelines have been established for the Fund.

Asset Classes	Target
Domestic Equity	32%
Large Cap	25%
Small Cap	7%
Non-U.S. Equity	24%
Fixed Income	35%
Real Estate	9%
Private Equity	n/a
Hedge Fund	n/a
Other	n/a

The asset allocation target will be reviewed annually for reasonableness in relation to significant economic and market changes or to changes in the Board's long-term goals and objectives. A formal asset allocation study will be conducted every three to five years to verify or provide a basis for revising the targets.

D. Investment Manager Structure

The Board has employed the minimum number of managers necessary to assure appropriate diversification within each asset class. The table below lists the specific roles to which individual investment managers are assigned and the target allocation of assets for each manager. In cases where there may be business or liquidity risk associated with allocating the full allocation to a single manager or where the fund may benefit from complementary approaches, two or more firms may be employed in a similar role.

Investment Manager Structure Allocations

Investment Style	% of Asset Class	% of Total Fund
<i>Domestic Equity</i>		32%
Passive Large Cap Core	40%	13%
Active Large Cap Growth	19%	6%
Active Large Cap Value	19%	6%
Small Cap Growth	11%	3.5%

Investment Style	% of Asset Class	% of Total Fund
Small Cap Value	11%	3.5%
<i>International Equity</i>		24%
Core Developed	78%	19%
Emerging Markets	12%	3%
International Small Cap	10%	2%
<i>Fixed Income</i>	100%	35%
<i>Real Estate</i>	100%	9%
<i>Private Equity</i>	n/a	n/a
<i>Hedge Fund</i>	n/a	n/a
<i>Other</i>	n/a	n/a

E. Rebalancing Policy

One essential component of a strategic asset allocation is the development and use of rebalancing ranges for the target allocation. The Board believes that systematic rebalancing should reduce portfolio volatility and increase portfolio return over the long term. The ranges specified in the table below are a function of the expected volatility of each asset class and the proportion of the total fund allocated to the asset class.

Asset Allocation	Lower Limit	Target	Upper Limit
Domestic Equities	27%	32%	37%
Large Cap	20%	25%	30%
Small Cap	4%	7%	10%
Non-U. S. Equity	19%	24%	29%
Domestic Fixed Income	30%	35%	40%
Real Estate	6%	9%	12%
Private Equity	n/a	n/a	n/a
Hedge Fund	n/a	n/a	n/a
Other	n/a	n/a	n/a

The Investment Consultant shall prepare quarterly reports reviewing the actual asset allocation percentages, demonstrating whether the lower or upper limits have been reached. When asset allocations exceed the ranges indicated above the Fund will be rebalanced to the target level or to a point within the target range as recommended by the Investment Consultant. External cash flows may be used to rebalance Fund assets as determined by the Board.

IV. TOTAL FUND EVALUATION

The overall portfolio design and asset allocation have been structured to provide the most appropriate structure and asset allocation from a risk and return perspective and to meet the Fund objectives.

The total Fund rate of return will be compared with (1) the required return of spending plus loss of purchasing power (inflation), (2) a weighted-average of the returns of broad indices representing each asset category where the weights are the target allocations to each, and

(3) the returns of a universe of funds with similar objectives and policies. The Board will evaluate performance on a net-of-fees basis.

The purchasing power index to be used is the Consumer Price Index – All Urban Consumers (CPI-U).

Market benchmarks utilized for individual asset classes are listed below:

Asset Category	Market Index	Callan Style Group
Total Domestic Equity	Russell 3000 Index	Total Equity Database
Passive Large-Cap Equities	S&P 500 Index	Large Cap Core Equity
Large Cap Value Equities	Russell 10000 Value Index	Large Cap Value
Large Cap Growth Equities	Russell 1000 Growth Index	Large Cap Growth
Small Cap Value Equity	Russell 2000 Value Index	Small Cap Value
Small Cap Growth Equity	Russell 2000 Growth Index	Small Cap Growth
Non-U.S Equity	MSCI ACWI ex U.S. Index IMI	Non-U.S. Equity
Core Developed	MSCI EAFE	Non- U.S. Equity
Emerging Markets	MSCI Emerging Markets	MF- Emerging Markets
International Small Cap	MSCI World Small Cap ex- U.S.	MF – International Small Cap
Fixed Income	BC Aggregate Bond Index	Core Plus Fixed Income
Real Estate	NFI-ODCE Eq. weight Net	Core Open End Real Estate Funds
Private Equity	N/A	N/A
N/A	N/A	N/A

The primary benchmark for evaluating the performance of the Fund is a Target Index consisting of a market index for the asset class weighted in accordance with the allocation target. The Target Index is defined below:

35% BC Aggregate
25% S&P500
7% Russell 2000
24% MSCI ACWI ex- U.S. IMI
9% NFI – ODCE Equal weight net

Over a three to five year period the Board expects the Fund to generate returns, after payment of all fees and expenses, which exceed the returns of the Target Index.

V. INVESTMENT MANAGER SELECTION AND EVALUATION

A. Investment Manager Selection

The Board intends to utilize a process for investment manager selection based on the principles of procedural due diligence. Accordingly, when selecting investment managers the Board will employ a competitive search process, which may include the following steps or such other steps as the Board determines in the situation:

1. Formulation of specific investment manager search criteria that reflects the requirements for the investment manager role under consideration.
2. Issuance of an RFP for investment management services in accordance with state law.
3. Analysis, with assistance of the Investment Consultant, of qualified candidates in terms of:
 - Quantitative characteristics, such as AIMR-compliant composite return data, risk-adjusted rates of return and relevant portfolio characteristics.
 - Qualitative characteristics, such as key personnel, investment philosophy, investment strategy, research orientation, decision-making process, and risk controls.
 - Organizational factors, such as type and size of firm, ownership structure, client-servicing capabilities, ability to obtain and retain clients, and fees.
4. Selection and interview, as needed, of finalist candidates based on a due diligence report prepared for the Board by the Investment Consultant.

B. Manager Communication

The Board, or Investment Consultant, will be in regular communication with the investment managers. Managers shall provide quarterly and monthly information to the Investment Consultant, and will notify the Board or Investment Consultant immediately of any organizational/ownership changes or changes in investment philosophy.

C. Manager Evaluation and Review

With the assistance of the Investment Consultant, the Board will evaluate each Investment Manager from a quantitative and qualitative standpoint on a quarterly basis. In evaluating all Investment Managers, the Board will consider qualitative factors likely to impact the future performance of the Fund's assets managed in addition to current and historical rates of return.

1. Qualitative Review

The Board will evaluate qualitative factors relating to an investment manager, including:

- Ownership changes
- Key staff turnover
- Conflict of Interest
- Changes in investment strategy

- Material litigation or fraud
- Material client-servicing problems

2. Quantitative Review

An Investment Manager's performance will be measured from inception and on a rolling five-year return basis in relation to a broad market index. Shorter-term performance will be measured in relation to an appropriate style index and "Peer Group". Each Investment Manager is to be measured against the median return of a previously agreed-upon peer group of investment managers with similar investment styles.

Managers are expected to maintain their stated investment style and philosophy. Quantitative measures of investment style and philosophy include style mapping, style attribution analysis, and tracking error relative to the benchmark. The Board with the assistance of the Investment Consultant will monitor these factors on a quarterly basis.

D. Watchlist Procedure and Criteria

A number of factors may contribute to an Investment Manager's over- or under-performance at any given time - market dynamics, investment skill, and/or pure chance. Given this uncertainty, it is unwise to mandate termination purely for lagging performance at any specific point. A Watch List will be utilized to identify managers whose performance and/ or organization changes are cause for concern.

At the discretion of the Board, an Investment Manager may be included on the Watch List based on the qualitative and quantitative criteria described in the manager evaluation and review section. Once a manager is placed on a Watch List, the Investment Consultant will provide quarterly updates on the performance of each manager as well recommendations to terminate or retain the manager. Organizational issues that have been resolved in a satisfactory manner and/or improved performance relative to an index and or peers may be used as an indicator to remove a given manager from the watch list. Additional actions could include a formal re-presentation of the Investment Manager to the Board.

VI. INVESTMENT POLICY REVIEW PROCEDURES

The Board will review annually the achievement of investment objectives, based on the evaluation criteria provided by the Investment Consultant, as well as the continuing feasibility of achieving the investment objectives. Other occurrences reviewed may be significant changes in the Fund's spending policy, the availability of acceptable new asset classes, and the passage of relevant new legislation or regulations.

Signatures

By the respective signatures of their duly authorized representatives, each party acknowledges and agrees that it will perform its respective responsibilities and services with respect to the Fund in accordance with this IPS.

Printed Name

Printed Firm Name

Signature

Date

APPENDIX

General Investment Manager Guidelines

DOMESTIC EQUITY GUIDELINES

Approved Securities

1. Common stock of any issuer traded on a U.S. stock exchange or in the U.S. over-the-counter markets which are denominated in U.S. dollars
2. Securities which take the form of sponsored and/or unsponsored American Depositary Receipts (“ADRs”) Global Depositary Receipts (“GDRs”) and/or European Depositary Receipts (“EDRs”) traded on the NYSE.
3. Other forms of equity investments such as direct investments are allowed subject to state law and with prior approval of the board.

Limitations

1. The following categories of equity securities are prohibited:
 - Securities of the investment manager or an affiliated organization
 - Short Sales,
 - Put and call options,
 - Margin purchases,
 - Commodities,
 - Direct real estate investments,
 - Foreign listed stocks.
 - Commodities
 - Restricted or letter stock
 - Oil, gas & mineral exploration investment trusts.
2. Equity futures contracts may be employed solely for the purpose of overlaying cash to generate equity exposure
3. The aggregate investment of the Alabama Trust Fund in the equity securities of any one issuing corporation shall not exceed 1% of the outstanding capital of such corporation. External managers shall notify the board at least annually if the manager’s total position in one corporation exceeds 5% of the outstanding capital of such corporation.
4. The portfolio as a whole should be managed keeping in mind the original mandate under which the manager was hired. No extreme position should be taken which would alter the character of the portfolio that could produce results inconsistent with that mandate.

Cash and Equivalents

The Board expects domestic equity managers to invest portfolios primarily in U.S. common stocks. However, investment in cash equivalents up to 5% of the market value of the portfolio is allowed. To the extent the portfolio holds cash; the cash will be

invested in the commingled short-term investment fund managed by the Custodian consistent with OCC Rag 9 and/or SEC Rule 2a-7.

INTERNATIONAL EQUITY GUIDELINES

Approved Securities

1. Foreign equity securities, defined as equity securities that are issued by any company that is organized or headquartered in a foreign country, or whose primary business (significant) is conducted outside the U.S.
2. Equity holdings shall be restricted to readily marketable securities of corporations that are domiciled in countries outside the United States or generate most of their revenues outside the United States. The securities shall be actively traded on major exchanges in these countries or in the U.S. Equity holdings may include American Depositary Receipts traded on U.S. exchanges. Convertible preferred stocks may be held. Exposure to Emerging Markets securities in developed market portfolios shall be limited to 20% of the market value of the portfolio. Exposure to Frontier Markets securities in Emerging Market portfolios shall be limited to 10% of the market value of the portfolio.
3. American Depositary Receipts; European Depositary Receipts; Global Depositary Receipts; or similar instruments representing securities of foreign companies.
4. Exchange Traded Funds (ETFs) are allowed to gain market exposure to market segments which are not open to the strategy for direct equity investment and to individual securities for which there are no available ADRs and for temporary cash equitization. The maximum allowable exposure to ETFs is 10% of the portfolio.
5. 144A securities in connection with a foreign public offering shall be limited to 10% of the market value of the portfolio.

Limitations

1. The following categories of equity securities are prohibited:
 - Securities of the investment manager or an affiliated organization
 - Short Sales,
 - Put and call options,
 - Margin purchases,
 - Commodities,
 - Direct real estate investments
 - Restricted or letter stock
 - Oil, gas & mineral exploration investment trusts.
 - Currency trading unrelated to hedging of permitted equity or fixed income securities.
2. Investment in any one issuer can not exceed five percent of assets.
3. Not more than 5% of the total stock portfolio may be invested in the common stock of any one corporation at the time of purchase and no more than 7% in any one corporation at market. Not more than 5% of the outstanding shares of any one company may be held by the portfolio. No more than the lessor of (2 times the sector

- weight in the index and 40%) valued at market may be held in any one economic sector as defined by MSCI EAFE classifications for developed market portfolios and by MSCI Emerging Markets Free classifications for emerging markets portfolios.
4. Investments should not be made in equity securities of issuers which do not have an available operating history of at least three years. Five years of operating history is preferred. Operating history may include past performance resulting from mergers, acquisitions, and spin-offs.
 5. Equity investments in companies with a market capitalization of less than \$100 million at the time of purchase are prohibited investments. Market Capitalization shall be defined as the number of shares outstanding multiplied by the market price per share

Cash and Equivalents

The Board expects non-U.S. equity managers to invest portfolios primarily in non -U.S. common stocks. However, investment in cash equivalents up to 5% of the market value of the portfolio is allowed. To the extent the portfolio holds local or base currency cash, the cash will be invested in the commingled short-term investment fund managed by the Custodian and/or an interest bearing account consistent with OCC Reg-9 and/or SEC Rule 2a-7.

FIXED INCOME GUIDELINES

All investment grade managers are expected to perform their fiduciary duties as prudent people would and to conform to all State and Federal statutes governing the investment of trust funds. Subject to these guidelines, managers shall have full discretion.

1. At the time of purchase all securities purchased for the Fund must be classified as investment grade by two of the three major rating services. For this purpose the rating must be at least “Baa3” by Moody’s, “BBB-” by Standard and Poors, and “BBB-” by Fitch ratings, or an equivalent short term rating. If only one rating exists, this one rating will determine investment grade status.
2. The fixed income portfolio is to be diversified so that no more than 15% is invested in one industry (does not apply to US Government and Agency securities).
3. The board may permit managers to purchase other securities. Such authority will be provided in writing to the manager.
4. No more than a maximum of 5% of the total fixed income portfolio may be invested in securities of any one corporation.
5. Unrated securities other than those issued by the US government or its Agencies may not be purchased without the prior consent of the board. Approved exceptions are 144A Privates (non-registered debt issued by corporations) when such companies registered debt carries an investment grade rating by either Moody’s, Standard & Poor’s, or Fitch.
6. The portfolio’s average duration is not to exceed 1.5 times that of the benchmark index.

7. Non-dollar fixed income securities are not permitted.
8. Derivative instruments, including futures contracts, option contracts and swap agreements may be used provided that they are 100% collateralized by highly liquid securities and do not represent leveraging of the assets.
9. The portfolio as a whole should be managed keeping in mind the original mandate under which the manager was hired. No extreme position should be taken which would alter the character of the portfolio that could produce results inconsistent with that mandate.

CORE PLUS MANDATES

Approved Securities

1. The portfolio must have an overall weighted average credit rating of not more than 3 rating notches below the benchmark's weighted average credit quality. For avoidance of doubt, if the benchmark is rated AA-, then 3 notches below would be A-
2. All investments are to be rated at least B- by Standard and Poor's, B3 by Moody's, or B- by Fitch at the time of purchase. A maximum 5% of the market value of the portfolio may be held in securities rated below CCC by Standard and Poor's or Fitch or Caa1 by Moody's. If each of the three credit rating agencies assigns a credit rating, the credit rating will be the middle of the three ratings (for example, if Moody's rates a security Baa2, S&P rates the security BB+ and Fitch rates the security BBB-, the middle credit rating would be considered BBB- by Fitch). If only two of the three credit rating agencies assign a credit rating, the credit rating will be the lower of the two. If only one credit rating agency assigns a credit rating, that credit rating will apply. Securities that are not rated will be permitted if, in the judgment of the investment adviser, they are of credit quality equal or superior to the standards described above.
3. The fixed income portfolio is to be diversified so that no more than 15% is invested in one industry (does not apply to US Government and Agency securities).
4. The board may permit managers to purchase other securities. Such authority will be provided in writing to the manager.
5. No more than a maximum of 5% of the total fixed income portfolio may be invested in securities of any one corporation.
6. Securities issued under Rule 144A (non-registered debt issued by corporations) are limited to 20% of the market value of the portfolio. Private placements securities that are not issued under Rule 144A securities are limited to 5% of the market value of the portfolio (not including pooled funds).
7. The portfolio's average duration is not to exceed 1.5 times that of the benchmark index.
8. Investments in high yield bonds, Non-US dollar denominated bonds, emerging markets debt, bank loans, and currencies are permitted. The total allocation to these non-benchmark sectors shall not exceed 30% of the market value of the portfolio. Emerging markets issuers that are part of the Barclays Capital Aggregate Index would not count towards the 30% limit.

9. Derivative instruments, including futures contracts, option contracts and swap agreements may be used provided that they are 100% collateralized by highly liquid securities and do not represent leveraging of the assets.
10. The portfolio will not invest in:
 - Common Stock
11. The investment adviser will not:
 - borrow money;
 - pledge, hypothecate, mortgage or encumber assets;
 - loan money;
 - purchase or sell real estate;
 - purchase or sell commodity options
12. The portfolio as a whole should be managed keeping in mind the original mandate under which the manager was hired. No extreme position should be taken which would alter the character of the portfolio that could produce results inconsistent with that mandate.

ALTERNATIVE INVESTMENTS

- **Private Capital Partnerships** – Investment allocations may include venture capital, private equity and international private capital investments, held in the form of professionally managed pooled limited partnership investments. Such investments must be made through Fund offered by professional investment managers.
- **Marketable Alternative Strategies** – Investments may include equity-oriented or market-neutral hedge Fund (i.e. Long/Short, Macro Event Driven, Convertible Arbitrage, and Fixed Income strategies), which can be both domestic and international market oriented. The components may be viewed as equity-like or fixed income-like strategies as defined by their structures and exposures.
- **Real Estate** – Investments in the real estate equity shall be well diversified by property type, size, and age. Each real estate investment manager shall be well diversified geographically within its area of expertise, i.e., nationally or regionally. Leverage may be used in a constrained manner in order to enhance yields in various investments and/or to facilitate the diversification of the portfolio. For core open-end real estate funds, the total level of debt for the overall portfolio will be limited to thirty-five percent (35%).
- **Derivatives and Derivative Securities** – Certain of the Fund's managers will be permitted under the terms of their specific investment guidelines to use derivative instruments. Derivatives are contracts or securities whose market value is related to the value of another security, index, or financial instrument. Investments in derivatives include (but are not limited to) futures, forwards, options, options on

futures, warrants, and interest-only and principal-only strips. No derivative positions can be established that create portfolio characteristics outside of portfolio guidelines.

Examples of appropriate applications of derivative strategies include hedging market, interest rate or currency risk, maintaining exposure to a desired asset class while making asset allocation changes, gaining exposure to an asset class when it is more cost-effective than the cash markets, and adjusting duration within a fixed income portfolio. All derivative positions must be fully collateralized. Investment Managers must ascertain and carefully monitor the creditworthiness of any third parties involved in derivative transactions.

Each manager using derivatives shall (1) exhibit expertise and experience in utilizing such products; (2) demonstrate that such usage is strategically integral to their security selection, risk management, or investment processes; and (3) demonstrate acceptable internal controls regarding these investments.

EXCEPTIONS

Each investment manager is required to comply with the objectives and guidelines set forth in this document. The board requires that any exceptions taken to this Investment Policy Statement be submitted in writing pending approval by the board. The board must explicitly authorize each exception in writing. Failure to notify the board and obtain written authorization will result in the investment manager being liable for any corresponding loss to the Trust's investment funds.

Pooled/Mutual Fund Exceptions

In the case of a commingled account or mutual fund, the Fund waives strict adherence to the previous investment guidelines. Notwithstanding these policies, a pooled/mutual fund's investment objectives, policies and restrictions, as set forth in its current prospectus and statement of additional information (as amended from time to time), shall govern the investment of the Fund's assets.

SECURITIES LENDING GUIDELINES

The Board's policies and guidelines governing securities lending shall be implemented through the Custodian (or third party lending institution other than the custodian or a combination of securities lending providers) A *separate contract*, distinct from a custody relationship, detailing the type of securities lending relationship and program is both mandatory and essential in the treatment of securities lending as, foremost, an investment function with the associated risks and return implications and fiduciary responsibility.

Overall Investment Objective

The securities lending provider must exercise investment discretion within the overall objective of: preserving principal; providing a liquidity level consistent with market conditions and the lending and

trading activities of the Funds' assets; and maintaining full compliance with stated objectives and statutory provisions. The securities lending provider shall exercise prudence and expertise in managing the cash collateral reinvestment function.

Program Guidelines

Maintenance of the integrity and operational functionality of the securities lending program shall be pursued with utmost diligence. The securities lending provider shall have documented policies and procedures in place detailing the following, if not stipulated in the securities lending contract, for both domestic and international securities:

- Borrower limits/creditworthiness
- Acceptable collateral
- Marking to market
- Corporate actions/distributions
- Proxy voting limitations
- Recall of loaned securities
- Revenue splits
- Valuation and reporting of loaned securities and cash collateral reinvestments
- Borrower risk (default)
- Cash collateral reinvestment risk
- Operational negligence
- Counterparty indemnification
- Other relevant policies

The securities lending provider shall at all times exercise prudence and due care and shall comply at all times with all laws, rules and regulations, including but not limited to the laws, rules and regulations of banking and securities regulatory bodies, and taxation authorities.

Collateral Management

The securities lending provider shall exercise prudence and reasonable care in discharging its discretion in the investment management of cash and non-cash collateral, including asset/liability (gap) management that is appropriate relative to the market environment or conditions in which the securities lending provider is operating.

Investment Guidelines

Securities issued or fully guaranteed by the United States Government and any agency, instrumentality, or establishment of the United States government ("Government Securities")

High-grade commercial paper, notes, bonds, and other debt obligations including promissory notes, funding agreements, and guaranteed investment contracts, whether or not registered under the Securities Act of 1933, as amended. Such obligations may have fixed floating, or variable rate interest payment provisions. Obligations maturing within one (1) year shall be issued by issuers rated at least A-1 (by Standard & Poor's) or P-1 (by

Moody's). Obligations maturing beyond one (1) year shall be issued by issuers rated at least A (by Standard & Poor's) or A2 (by Moody's).

Asset Backed securities which carry the highest rating by Standard & Poor's or Moody's.

Certificate of deposit time deposits, and other bank obligations of U.S. banks, their branches, and subsidiaries, Obligations will be rated A-1 (Standard & Poor's) or A2 (Moody's) if maturing beyond one (1) year.

Repurchase and reverse repurchase agreements collateralized by Approved Investments listed on this Schedule A and entered into with counterparties approved by the custodian (including the custodian and its affiliates).

Securities, units, shares, and other participations in money market funds, unregistered short term investment funds, pools, or trusts (including those managed by the custodian)

Maturities

Government Securities have no maturity limit

Fixed Rate Instruments shall have a maturity no greater than 13 months.

Floating Rate Instruments shall have maturity as follows:

"A" and "AA" Rated Instruments no greater than three (3) years with resets no less frequent than three (3) months; "AAA" Rated Instruments no greater than five (5) years with resets no less frequent than three (3) months.

Investment Manager Exceptions to General Investment Manager Guidelines

- American Century, the international small cap growth equity manager, will operate within the international equity guidelines delineated in this Investment Policy Statement except that:
 - Exposure to emerging markets securities shall be limited to the emerging market weight of the MSCI AC World ex-US Small Cap Growth index.
 - 144A securities issued in connection with a foreign public offering are allowed in the portfolio.
 - No more than the lesser of (2 times the sector weight in the index and 40%) valued at market may be held in any one economic sector as defined by the MSCI ACWI ex-US Small Cap Growth Index.
- Lazard Asset Management, one of the international equity managers, will operate within the international equity guidelines delineated in this Investment Policy Statement except that:
 - 144A securities issued in connection with a foreign public offering are allowed in the portfolio.
 - Investment in cash equivalents up to 10% of the market value of the portfolio is allowed.

- Invesco, one of the international equity managers, will operate within the international equity guidelines delineated in this Investment Policy Statement except that:
 - Sector constraints will be implemented using the MSCI ACWI ex-US Growth Index instead of the MSCI EAFE Index.
 - Where 2X the sector weight of the index (MSCI ACWI ex-US Growth Index) is still less than 20%, the portfolio is permitted to invest up to 20% in such sector.

- Artisan Partners, one of the international equity managers, will operate within the international equity guidelines delineated in this Investment Policy Statement except that:
 - MSCI country classifications will be used to classify a company as U.S. or non-U.S. Exposure to U.S. securities of up to 10% of the market value of the portfolio at time of purchase is allowed.
 - No more than the greater of (2 times the sector weight in the MSCI EAFE index and 40%) valued at market may be held in any one economic sector,
 - The portfolio may not purchase securities in private placements other than securities privately placed under Rule 144A or another similar private placement exemption and equity-linked instruments described below.
 - The portfolio may invest up to 10% of the market value of the portfolio at time of purchase in listed over-the-counter un-leveraged, equity-linked instruments; provided, however, that the portfolio will not invest more than 5% of the market value of the portfolio at the time of purchase in such instruments issued by a single counterparty.
 - The portfolio may acquire, receive, retain and exercise warrants, rights or similar instruments attached to portfolio securities.
 - Investments in cash and cash equivalents up to 10% of the market value of the portfolio is allowed.

- Vulcan Value Partners, the small cap value manager, will operate within the domestic equity guidelines delineated in this Investment Policy Statement except that:
 - Investments in foreign ordinaries is allowed
 - Investment in cash and cash equivalents up to 10% of the market value of the portfolio is allowed.